



Office of the Comptroller and Auditor General

Grants and Subsidies

07 December 2017



JERSEY AUDIT OFFICE

R.133/2017

Grants and Subsidies

Introduction

- 1.1 Grants to third parties are an important means by which public sector bodies deliver their policy objectives. To ensure that those objectives are secured economically, efficiently and effectively it is important to have the right controls in place, from design of grant schemes through to evaluation of their impact.
- 1.2 The States make extensive use of grants to third parties (see Exhibit 1). Even excluding those individual grants over £75,000, most of which fell within the scope of my report on Arm's Length Organisations published in June 2017, total expenditure on grants was over £5 million in 2016.

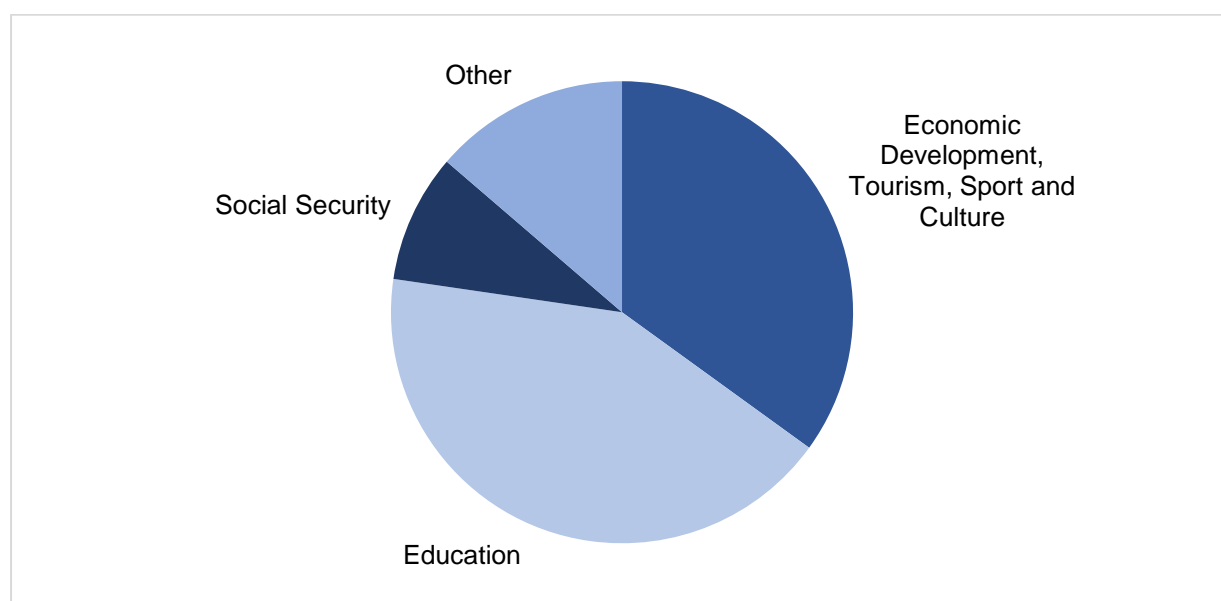
Exhibit 1: Expenditure on grants in 2016

Individual grants over £75,000	£38,188,000
Grants under significant grant schemes (where total value of the scheme exceeded £25,000)	£4,587,000
Other grants and subsidies	£721,000
Total	£43,496,000

Source: States' Financial Report and Accounts 2016

- 1.3 Over 86% of grants under £100,000 related to three departments (see Exhibit 2).

Exhibit 2: Grants under £100,000 by department 2016



Objectives and scope

- 1.4 The review evaluates the effectiveness of arrangements for the development, oversight, management and evaluation of grants and subsidies awarded to third parties.
- 1.5 The review does not extend to:
- payments of grants to arm's length organisations that were considered in my separate review published in June 2017;
 - arrangements for grant payments and subsidies where the payment to any one individual or organisation exceeds £100,000 in a financial year as these were mostly covered in my review of arm's length organisations. However, this does not exclude from the scope of the review grant schemes where the total value of payments to all grant recipients in a year exceeds £100,000;
 - loans from the Jersey Innovation Fund that were considered in my separate review published in January 2017;
 - the content of the draft revised Financial Direction 5.5 on grants and subsidies prepared in 2017 but not issued as at 30 September 2017; and
 - arrangements in place within grant recipients.

Approach

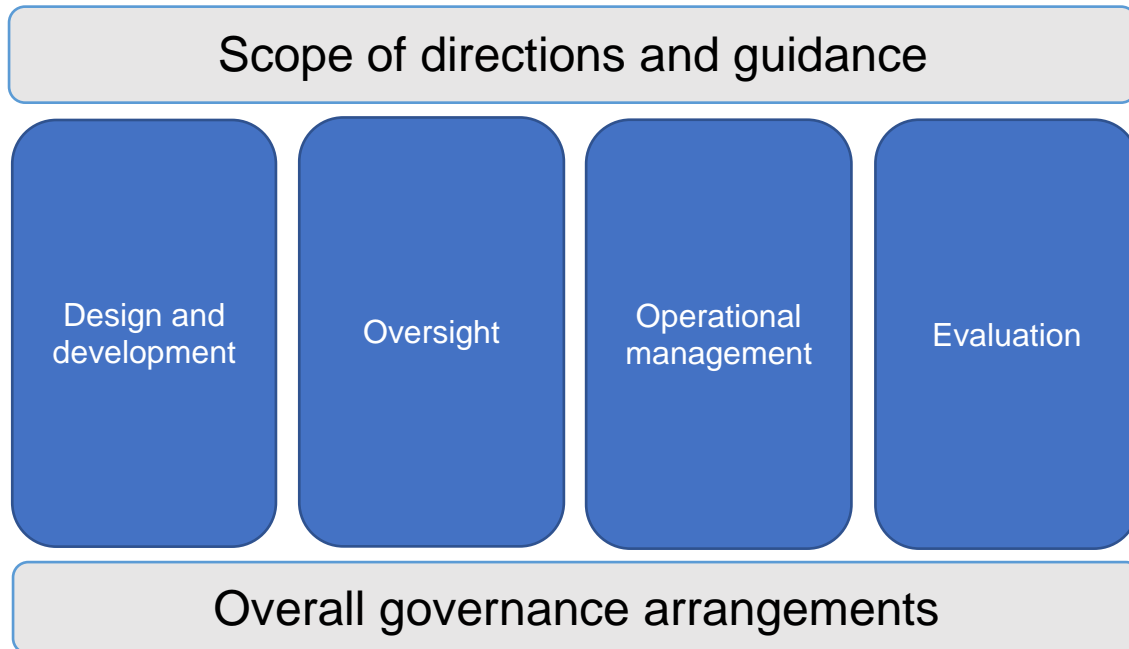
- 1.6 The review was undertaken by:
- evaluating work undertaken by Internal Audit;
 - review of documentation;
 - interviews with officers; and
 - review of a sample of 18 individual grants or grant schemes of which 10 were selected for more detailed analysis (see Exhibit 3). This extended work did not include grants made by Economic Development, Tourism, Sport and Culture as these were the subject of a detailed internal *Review of EDTSC Grants* (May 2017), the findings of which I refer to elsewhere in this report.

Exhibit 3: Grants selected for detailed testing

Grant recipient	Funding 2016 £	Selected for detailed analysis
Chief Minister's		
Community Savings and Credit Limited	50,000	x
Community and Constitutional Affairs		
Freedom for Life Ministries	200,000	x
Prison! Me! No Way!!	60,000	x
Education		
Nursery Education Fund	1,965,000	x
Grants to individuals (Victoria College Foundation)	55,000	x
Environment		
Energy Efficiency Service	563,000	x
Countryside Enhancement Scheme	162,000	x
Economic Development, Tourism, Sport and Culture		
Area Payments to Individuals	528,000	
Quality Milk Payments to Individuals	393,000	
Total Rural Initiative Scheme	98,000	
Support for travel to participate in sports events	320,000	
Support for purchasing equipment and organising activities	185,000	
Social Security		
Various employment schemes	858,000	x
Health and Social Services		
Salvation Army	50,000	x
Family Mediation Service	12,000	
Infrastructure		
Parish of St. Helier	83,000	x
Judicial Greffe		
Family Mediation Service	60,000	
Ports of Jersey		
Jersey International Air Display	90,000	

1.7 My work has been structured around six key areas that I consider in turn in this report (see Exhibit 4).

Exhibit 4: Areas reviewed



Source: Adapted from UK National Audit Office (NAO) Competitive and demand-led grants Good Practice Guide, November 2015.

Scope of directions and guidance

- 2.1 A prerequisite for consistent management of grants and subsidies is a clear framework effectively communicated throughout an organisation.
- 2.2 Both Financial Direction 5.5, the Direction issued by the Treasurer of the States on the management of grants, and the Jersey Financial Reporting Manual adopt this definition of grants:
- ‘assistance from a States entity in the form of transfers of resources to an individual or organisation in return for past or future compliance with certain conditions’*
- 2.3 This definition is both broad and ambiguous: it could be interpreted to include any contractual payment where the condition is the provision of a good or service.
- 2.4 This ambiguity creates practical problems:
- it means that Financial Direction 5.5 extends to classes of payments where the controls detailed in it may not be appropriate. In my report on Arm’s Length Organisations (ALOs) published in June 2017 I explained why different provisions were appropriate for financial support to such bodies where there is a long term relationship between the States and the ALO. In particular, I explained why I thought there should be a focus on:
 - considering whether funding should be by way of a grant or a contract for service provision;
 - evaluating the effectiveness of controls put in place by the ALO; and
 - measurement of delivery of objectives by the ALO; and
 - officers can be uncertain whether or not a payment falls within the scope of Financial Direction 5.5 or not and therefore what control framework should apply. A practical example relates to the payments made to Serco (Jersey) Limited under the terms of an agreement to operate the Aquasplash swimming pool complex in St. Helier. This is included within ‘grants and subsidies’ in the States’ accounts but in essence is a contractual payment that is fundamentally different in substance from expenditure under that heading (see Case Study 1). In contrast, the Health and Social Services Department has ceased to treat payments to various groups in the voluntary sector as grants having changed the relationship to one closer to a contract.

Case Study 1

In 2001, the former Waterfront Enterprise Board entered into a 21 year arrangement with Serco (Jersey) Limited to operate the Aquasplash facility owned by the States with the public sector meeting the cost of capital expenditure and the operating deficit (subject to risk sharing agreements). In 2010 the States and Serco entered into a revised arrangement that provided for fixed payments towards the operating deficit.

The agreement is fundamentally different to other grants and subsidies in that it is a commercial agreement for the operation of a States' facility.

Some of the provisions of the agreement could provide perverse incentives. For example, the States annually allocate up to £100,000 for capital expenditure on the pool determined on the basis of a needs assessment by Serco and a condition report. Budgets cannot be carried over from one year to the next. This arrangement:

- incentivises inefficient expenditure in order to utilise the annual budget; and
- hinders effective planning of capital expenditure as it forces 'smoothing' of expenditure over time.

2.5 The underlying risk of using a framework developed for grants for what are in substance different types of payments is that the framework is inappropriate. As a result it may not be possible to demonstrate that value for money has been secured.

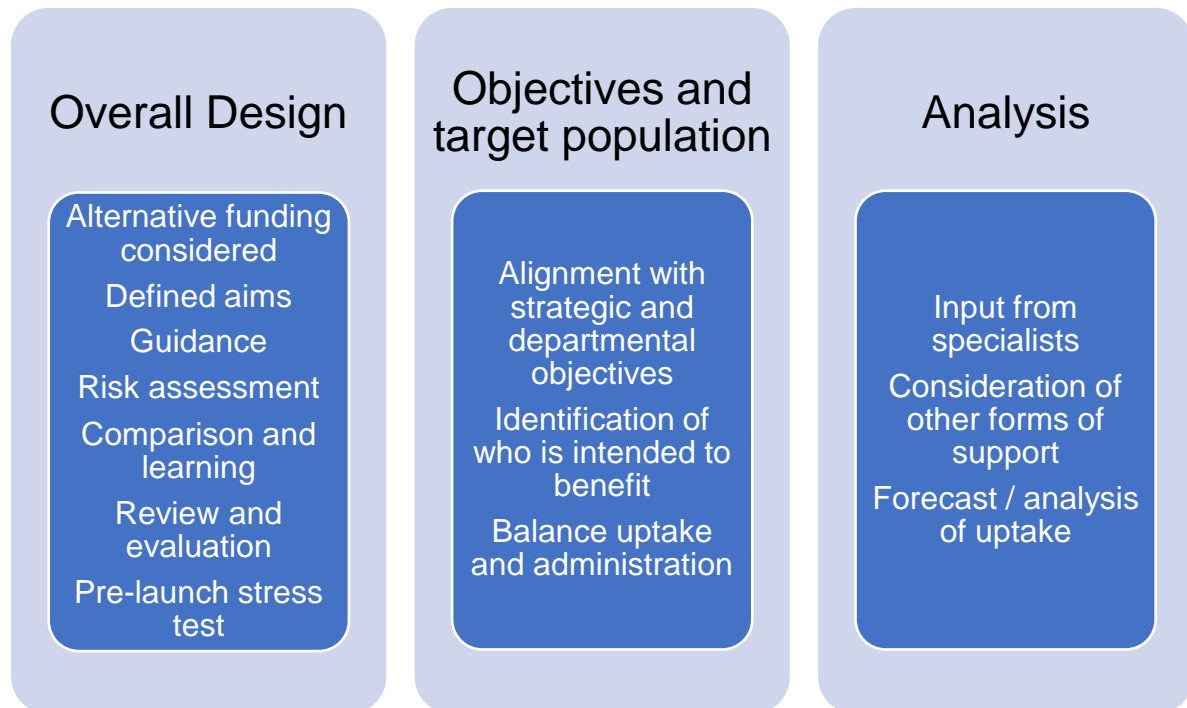
Recommendations

- R1** Clarify the scope and review the definition of payments treated as 'grants and subsidies'.
- R2** Ensure that payments that are in substance contracts are effectively managed as such.

Design and development

- 3.1 Good design of grant awarding systems and processes ensures that the use of grant funding is the most appropriate form of funding and benefits the intended recipients. It relies on appropriate expertise and analysis (Exhibit 5).

Exhibit 5: Features of good grant scheme design



Source: NAO *Competitive and demand-led grants Good Practice Guide*, November 2015

Overall design

- 3.2 Financial Direction 5.5 prescribes arrangements for the award of grants and sets out minimum standards for adoption across the States (see Exhibit 6).

Exhibit 6: Requirements of Financial Direction 5.5

Award of grant only where the objectives of the States are achieved most effectively through award of a grant rather than direct expenditure

Recipient required to outline controls they intend to operate to ensure public money is spent in a proper manner and for the purposes intended

Written funding agreements

Additional requirements for funding agreements for funding over £100,000

Provision of accounts (audited where funding is over £75,000)

Provision of a grant assurance statement in specified format confirming how the grant was spent and the outcomes achieved in comparison with the original terms of the grant

Payment to States where assets funded by States disposed of

3.3 I am pleased to note that the current Financial Direction:

- includes appropriate key provisions as detailed above; and
- distinguishes between the controls required depending on the size of grants, with different requirements where grants awarded exceed £5,000, £25,000, £75,000 and £100,000. This approach reflects that there is a cost of implementing controls and this cost needs to be balanced against risks.

3.4 I understand that a draft revised principles based Financial Direction has now been prepared.

3.5 There are areas in my view where there is scope for improvement in the overall arrangements across the States:

- Internal Audit has identified some instances of non-compliance with Financial Direction 5.5, for example in relation to obtaining grant assurance statements and accounts from grant recipients in respect of grants to private schools and grants made by Economic Development, Tourism, Sport and Culture, including from the Tourism Development Fund;
- Financial Direction 5.5 does not cover a number of key elements relevant to scheme design (see Exhibit 7) although in instances, despite the guidance, these features are reflected in the design and implementation of individual grants. For example, anti-fraud controls have been built into some larger grant schemes, such as those relating to energy and employment.

Exhibit 7: Key areas not covered by Financial Direction 5.5



Objectives and target population

3.6 Best practice involves:

- clearly aligning grants to organisational objectives so that grant expenditure is demonstrably linked to those objectives;
- identifying the target population for grants in the context of those objectives; and
- balancing securing the uptake of grants by the target population against the cost of administration.

3.7 Financial Direction 5.5 does refer to the need to ensure that grants are awarded in accordance with strategic aims and objectives. For eight out of ten schemes reviewed, there is documented consideration of alignment to strategic and departmental objectives. However, in some cases, such as the grant to Victoria College Foundation, there was no explicit consideration of the link to strategic aims and objectives before establishment of the scheme or award of the grant, increasing the risk that grants do not further those strategic aims.

3.8 Financial Direction 5.5 does not refer either to identifying the target population for grants or balancing the uptake of grants against the cost of administration. Eight out of ten schemes tested identified those intended to benefit from the grant. However, Internal Audit found instances where grants were awarded either to those who did not need the funds or did not use the grant for the intended purpose. For example, Internal Audit found that significant funds awarded to the Jersey Legal Information Board remained unspent.

Analysis

3.9 Best practice involves:

- seeking input from specialists, including market specialists where appropriate;
- considering alternative mechanisms for support; and
- forecasting and analysing the uptake of grant schemes.

3.10 For some larger grant schemes, such as the Nursery Education Fund, Energy Efficiency Scheme and Countryside Enhancement Scheme, there is evidence of active consideration in these areas:

- relevant market sector advice has been sought and incorporated into the grant scheme design;
- consideration has been given to what grants and other forms of support are already available to market participants; and
- some analysis has been undertaken to forecast the likely levels of uptake of the scheme.

3.11 The Prison! Me! No Way!! grant demonstrates extensive use of analysis (see Case Study 2).

Case Study 2

Investment in the Prison! Me! No Way!! multi-agency initiative stems from the States Community Safety and Substance Misuse Strategy for Jersey. This is informed by a substantial evidence base including:

- research, including two pieces of research into substance misuse in Jersey and reconviction studies;
- reviews of provision for children with emotional and behavioural difficulties, anti-social behaviour, youth offending, youth justice and victim services; and
- research supporting the recent review and update of the States Community Safety and Substance Misuse Strategy for 2016-19 which highlighted that youth crime has significantly reduced since 2005 and that the States of Jersey Police had made vast improvements in engaging with communities. It recognises that successful neighbourhood crime reduction means putting communities in the driving seat and that partnerships with organisations such as Prison! Me! No Way!! help to deliver community safety and key substance misuse messages to schools and the wider community.

3.12 However, I also identified that:

- there is no requirement to consider market forces in designing grant schemes;
- there is no analysis of grant payments across different schemes to identify the aggregate impact on recipients of more than one type of public support. Internal Audit has identified potential overlaps between different forms of support for private schools and for tourism businesses that might access support both from the Tourism Development Fund and Visit Jersey.

Recommendations

R3 Reflect in the revised Financial Direction 5.5 the elements of best practice for scheme design included in this section:

- consideration of alternative mechanisms for funding;
- identification, assessment and mitigation of risks;
- learning from other grant schemes;
- stress testing;
- anti-fraud strategies;
- establishing evaluation and review processes;
- identifying the target population for grants;
- balancing the uptake of grants against the cost of administration;
- involvement of market sector expertise and reflecting it in scheme design;
- consideration of other grants and support available to market participants; and
- forecasting and monitoring of scheme uptake.

R4 Reinforce the mechanisms for monitoring compliance with corporate requirements following the roll-out of the revised Financial Direction 5.5, including:

- the need for a transparent linkage of grant schemes to organisational objectives; and
- the need to ensure that grants are used only for their intended purpose.

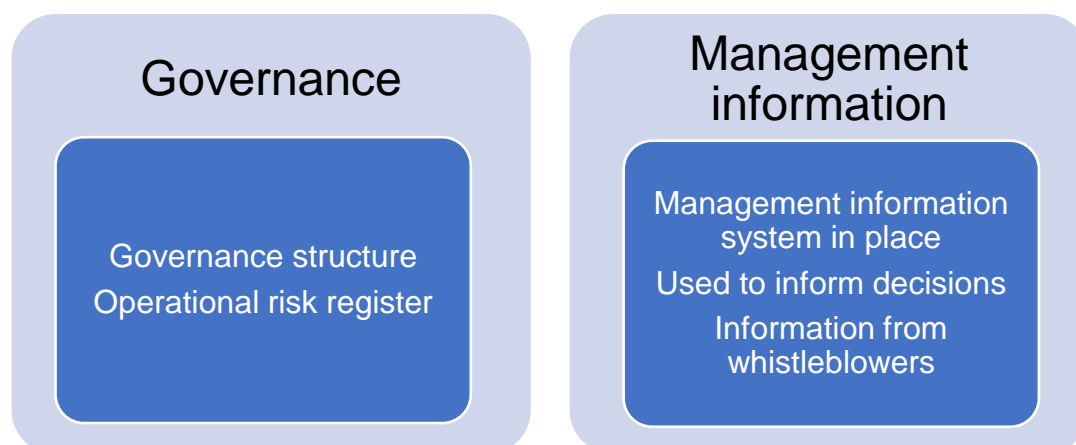
R5 Undertake a corporate review of grants and other support to identify the total level of support to individual bodies and whether that is in line with organisational objectives.

Oversight

4.1 Robust oversight:

- secures transparency and accountability in the award of grants; and
- promotes the efficient and effective utilisation of grant monies (see Exhibit 8).

Exhibit 8: Features of good oversight



Source: NAO *Competitive and demand-led grants Good Practice Guide*, November 2015.

Governance

- 4.2 As emphasised in a number of my previous reports, good governance with clear responsibilities and accountabilities, is at the heart of securing value for money and demonstrating that it has been secured. Good governance also embraces effective risk management on which I issued a separate report in September 2017.
- 4.3 Although Financial Direction 5.5 does set some requirements for oversight of grants awarded, as highlighted in my report on *Arm's Length Organisations*, the Financial Direction does not:
- set out the overarching principles driving governance arrangements;
 - prescribe the mechanisms by which grant recipients account for their performance; or
 - focus on measurement and delivery of objectives.
- 4.4 In practice, there is a wide disparity in the governance arrangements adopted without an apparent rationale for the different models adopted (see Case Study 3).

Case Study 3

There is a variety of different models for oversight of grants awarded, including

- monitoring by designated officers for one-off grants, such as the grant to Freedom for Life Ministries;
- monitoring by panels selected from the sector involved, such as grants for travel to sports events; and
- monitoring by an independent oversight panel: the Jersey Energy Trust provides oversight of energy grant schemes.

4.5 In practice, there were weaknesses in governance over grants. For the sample of grants reviewed:

- although accounts were obtained in most cases from grant recipients, as required by Financial Direction 5.5, there was little evidence as to how they were used;
- for only four out of ten schemes tested in detail was there evidence of how outcomes or value for money had been evaluated.

4.6 In addition, Internal Audit's work highlighted instances of weaknesses in governance arrangements within the Economic Development, Tourism, Sport and Culture Department (see Exhibit 9).

Exhibit 9: Examples of weaknesses in governance arrangements identified by Internal Audit

Grant	Weakness
General	Lack of departmental controls and assurance framework
Skills Accelerator Grant	Inadequate records of Panel decisions
Tourism Development Fund	Grounds for award of grants not documented by reference to objective criteria Accounts and Grant Assurance Statements not obtained
Jersey International Air Display (See Note)	Prior to 2016 no evaluation reports were submitted demonstrating the extent to which the States' support for the Air Display had achieved its objectives and quantifying the wider economic benefits to Jersey

Note: From 2017 responsibility for the grant to the Jersey International Air Display passed to Ports of Jersey

- 4.7 Financial Direction 5.5 does not reflect a requirement to apply risk management principles to individual grant schemes and grants. For none of the grants that I reviewed was there documented evidence that operational risks been identified, assessed or monitored.

Management information

- 4.8 Effective monitoring of grants requires good information captured in a way that facilitates its use. This includes information received from ‘whistleblowers’ that can be valuable intelligence about the application of grants awarded.
- 4.9 Corporate standards for minimum information to be maintained about grants is contained in the Jersey Financial Reporting Manual (JFReM). But the focus of the manual – on coding of expenditure – is for external financial reporting rather than effective oversight of grants awarded. The focus of the JFReM is entirely on financial information and does not cover, for example, information on the outcomes of expenditure on grants. There are no corporate standards or guidance on the use of information from whistleblowers.
- 4.10 There are good examples of collection and use of information to inform decision making, including decisions on future policy (see Case Study 4).

Case Study 4

For some grant schemes, information is collected and used in a structured way to evaluate the effectiveness of grants awarded:

- For the Nursery Education Fund details of headcount and nursery hours are used along with other analytics to analyse trends;
- For the Prison! Me! No Way!! scheme evaluative information such as feedback from parents, students, schools, the business community and other stakeholders is collected. Together with crime analytics this information is reported in the Building Safer Communities Annual Report; and
- Key statistics resulting from the award of energy grants, including energy savings and non-energy savings, are collated and reported in the States Energy Efficiency Annual Report.

- 4.11 Some departments, such as Health and Social Services and Social Security set clear expectations of monitoring information to be provided by grant recipients. However, this is not consistently the case across departments with, for example, little evidence of systematic monitoring information being obtained from sporting bodies to which grants have been awarded.

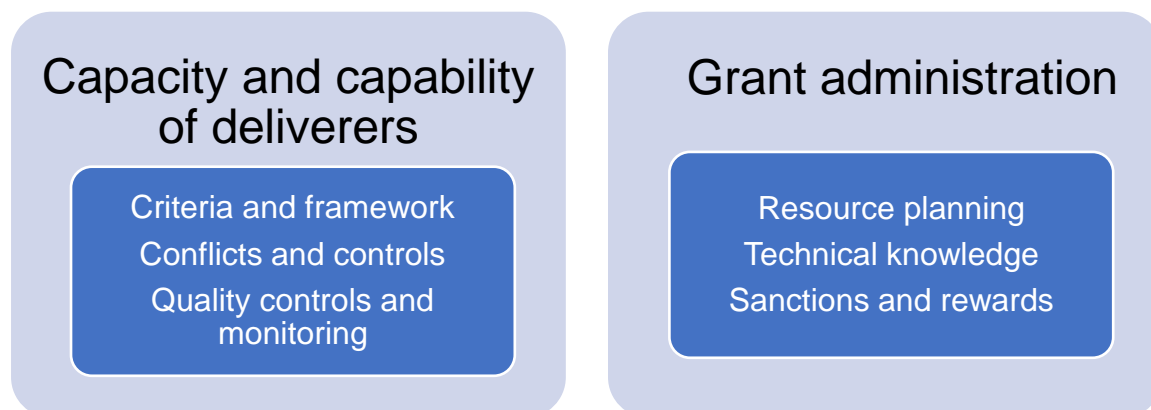
Recommendations

- R6** Reflect in the revised Financial Direction 5.5 the elements of best practice for scheme oversight included in this section:
- overarching principles driving governance arrangements;
 - mechanisms by which grant recipients account for their performance;
 - provisions on measurement and delivery of objectives;
 - specific provisions on risk management;
 - requirements in relation to collation and use of management information; and
 - requirements in relation to the collation, recording and use of information received from whistleblowers.
- R7** Review the range of existing governance arrangements for individual grants and grant schemes and justify differences by reference to business need.
- R8** Reinforce the mechanisms for monitoring compliance with corporate requirements following the roll-out of the revised Financial Direction 5.5 proportionate to the size of grant awarded, including:
- critically reviewing annual accounts provided by grant recipients;
 - obtaining evidence that grants have been used only for their intended purpose; and
 - holding formal monitoring meetings with grant recipients.
- R9** Share across the States good practice on the collection, evaluation and reporting of monitoring information on grants awarded.

Operational management

- 5.1 Robust operational management enables grants to be efficiently and effectively run in accordance with organisational policies and objectives, whether the grant is administered internally, in partnership or by third parties (see Exhibit 10).

Exhibit 10: Features of effective operational management



Source: NAO *Competitive and demand-led grants Good Practice Guide*, November 2015.

Capacity and capability of deliverers

- 5.2 Grants may entail delivery via or in collaboration with third parties or 'delivery partners'. Robust arrangements for selection and ongoing monitoring of such parties are important in minimising the risk that grants do not deliver their objectives.
- 5.3 Financial Direction 5.5 does not require:
- robust assessment of the capacity and capability of 'delivery partners'; or
 - ongoing monitoring of whether controls operated by 'delivery partners' are effective.
- 5.4 In practice, there is a range of different mechanisms for assessment and monitoring of the capacity and capability of 'delivery partners', with different levels of formality (see Exhibit 11).

Exhibit 11: Assessment of capacity and capability of 'delivery partners'

Grant	Mechanisms
Energy	Deliverers invited to tender for a framework contract. Due diligence carried out on all tenderers.
Rural Initiative Scheme	Applicants required to submit accounts and provide capital value of business.
Salvation Army	Constitution reviewed. Capacity requirements built into funding agreement.

5.5 However, in practice arrangements are not adequate:

- for none of the grants reviewed was there any evidence that conflicts of interest by 'delivery partners' had been addressed;
- there is no conflicts of interest policy for the Tourism Development Fund; and
- Internal Audit has identified a need to improve due diligence.

Grant administration

5.6 Best practice involves having sufficient resources with the right skills to oversee delivery of a scheme and having an appropriate framework of sanctions and rewards to incentivise grant recipients.

5.7 Financial Direction 5.5 does:

- require departments to establish a policy on appeals against non-award of a grant; and
- promote inclusion of specific provisions for repayment of grants in the event of non-performance or non-compliance.

5.8 However, Financial Direction 5.5 does not require consideration of:

- the use of a wider range of sanctions and rewards; or
- the volume and nature of resources required to administer grants as part of the development of a grant scheme.

5.9 In practice, I did not identify inadequate resources or inadequately skilled staff to administer grants. However, the cost of administration of grant schemes was not routinely identified or reviewed. In the sample I reviewed, the cost of administration was considered only for energy grants.

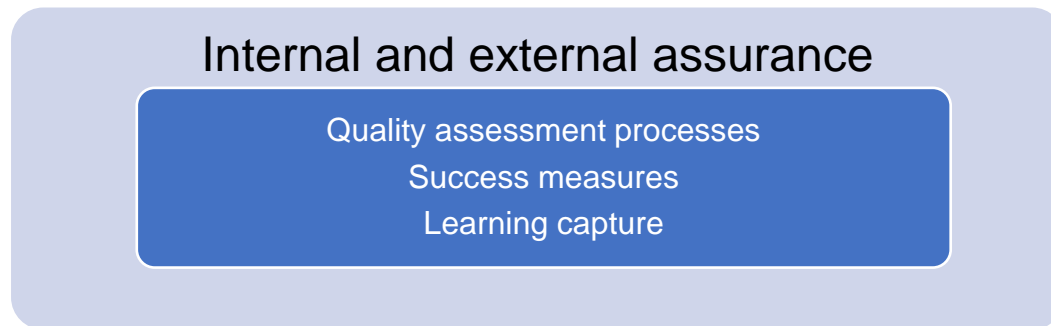
Recommendations

- R10** Reflect in the revised Financial Direction 5.5 the elements of best practice for scheme management included in this section:
- robust assessment of the capacity and capability of ‘delivery partners’;
 - ongoing monitoring of whether controls operated by ‘delivery partners’ are effective;
 - consideration of the use of a wider range of sanctions and rewards; and
 - consideration of the volume and nature of resources required to administer grants.
- R11** Reinforce the mechanisms for monitoring compliance with corporate requirements following the roll-out of the revised Financial Direction 5.5, including:
- consideration of conflicts of interest; and
 - undertaking due diligence.
- R12** As part of the design of grant schemes routinely consider the cost of grant administration.

Evaluation

- 6.1 Evaluation is an important part of assessing operational effectiveness. Collecting and analysing information about grant activities, characteristics and outcomes enables decision makers to form judgments about the impact of grant schemes and individual grants, in turn improving decision making and effectiveness (see Exhibit 12).

Exhibit 12: Features of good evaluation mechanisms



Source: NAO *Competitive and demand-led grants Good Practice Guide*, November 2015.

- 6.2 Basic elements of evaluation are in place:
- Financial Direction 5.5 requires receipt of annual Grant Assurance Statements from grant recipients; and
 - Internal Audit undertakes a programme of risk-based reviews of grants and grant schemes.
- 6.3 However, Financial Direction 5.5 does not:
- require success measures to be adopted or for the outcome measures for grants to be collated and used; or
 - require quality checks to be undertaken in respect of larger grants.
- 6.4 In practice quality measures were included in a majority of funding agreements reviewed, although these often did not measure the value for money secured from grants (see Case Study 5).

Case Study 5

Activity measures were used to evaluate the grant to Community Savings:

- number of new accounts opened and emergency loans granted on a quarterly basis;
- number of new contacts made and presentations given;
- media features and other publicity; and
- donations received.

However, no measures were used that evaluated value for money, for example the cost per account opened.

6.5 In addition, although quality checks were in place for some larger schemes, the level of assurance they provided was variable (see Exhibit 13).

Exhibit 13: Quality checks over larger grant schemes

Scheme	Quality checks
Nursery Education Fund grants	Verification of monitoring data during annual onsite visits by Early Years and Childcare team
Freedom for Life Ministries grant	Review of physical progress on building works by nominated States officer
Prison! Me! No Way!! grant	Annual performance review required in funding agreement.

6.6 In 2015 Internal Audit prepared a report drawing together findings from individual reviews of grants that it had undertaken. It highlighted recurrent weaknesses in:

- due diligence over potential grant recipients;
- verification of eligibility for grants;
- clarity of specification of outcomes for grants; and
- robustness of challenge of outcomes achieved from grants.

6.7 Internal Audit concluded that the States required a corporate grants strategy setting out:

- what activities will be funded by grants;
- how, in the context of limited resources, grant funding can be used efficiently and effectively to achieve corporate objectives; and
- how the risks associated with grant funding would be managed.

6.8 Such a strategy is a vital foundation for the relevant Financial Direction. But no such framework has yet been developed. Indeed, Internal Audit's subsequent work has, as indicated elsewhere in this report, continued to identify recurrent weaknesses in the management of grants suggesting that corporate learning has not yet been secured.

Recommendations

R13 Reflect in the revised Financial Direction 5.5 the elements of best practice for evaluation included in this section:

- inclusion of appropriate value for money measures for grants in funding agreements and subsequent use of those measures; and
- systematic quality checks for all larger grants.

R14 Review the cost and effectiveness of existing quality checks across larger grants and grant schemes and reconsider quality checks in light of that review.

R15 Develop an overall States-wide framework for grants.

R16 At Corporate Management Board level, develop a corporate action plan to address the recurring weaknesses in the management of grants and monitor its implementation.

Overall governance arrangements

- 7.1 Only where all the individual components of effective control over grants are appropriate and consistently applied can an organisation demonstrate appropriate internal control and value for money. Within the States, Accounting Officers have a personal responsibility for the maintenance and operation of an effective system of control.
- 7.2 But too often weaknesses in arrangements have been identified and prompt and effective action has not been taken. In Exhibit 14 I highlight issues identified in Internal Audit's advisory review entitled *Corporate Review of Grants* published in January 2016. I also illustrate, in the context of Economic Development, Tourism, Sport and Culture, how many of those were again highlighted in the internal review commissioned by the Chief Executive of the States, *Review of EDTSC Grant* issued in May 2017, over a year later. In addition, some of the findings of that later review had been highlighted in other internal audit reports.

Exhibit 14: Key findings from Internal Audit work, including *Corporate Review of Grants* (January 2016), and from internal *Review of EDTSC Grants* (May 2017)

	<i>Corporate Review of Grants</i> (January 2016)	<i>Review of EDTSC Grants</i> (May 2017)
No corporate strategy for objectives and outcomes to be secured from grant funding	X	
No departmental control and assurance framework for grants		X
Insufficient due diligence over grant recipients	X	X
Insufficient focus on eligibility of grant recipients	X	X
Insufficient focus on outcomes from grants and gaining assurance that outcomes have been achieved	X	X
Weak monitoring and documentation to demonstrate that a grant has been applied for its intended purpose	X	X
Insufficient focus on risks associated with grant funding, including in risk registers	X	

	<i>Corporate Review of Grants</i> (January 2016)	<i>Review of EDTSC Grants</i> (May 2017)
Absence of grant agreements / use of grant agreements that depart from the requirements of FD 5.5		X
Inadequate documentation of key decisions		X
Conflicts of interest arising from officers serving as members of boards of grant recipients (See Note)		X
Limited adoption of Internal Audit recommendations across Economic Development, Tourism, Sport and Culture	X	X

Note: *This weakness has subsequently been addressed*

- 7.3 In October 2017 the recently appointed Accounting Officer for Economic Development, Tourism, Sport and Culture wrote to the Treasurer of the States. He said that, given the significance of the issues raised and the lack of capacity within the Department to address them, he would experience difficulties in the short-term in discharging his responsibilities in relation to grants. He did, however, outline the work in place, including through engagement of external support, to address the weaknesses in control highlighted by Internal Audit. I welcome this positive commitment to change.
- 7.4 However, I am concerned that there are demonstrable weaknesses in the management of grants and that:
- taken together, the weaknesses are significant and mean that the States was not able to demonstrate that value for money was secured from expenditure on grants; and
 - in some parts of the States a culture was tolerated that allowed such weaknesses to persist, even after Internal Audit made recommendations for improvement.
- 7.5 Although these issues have been highlighted within Economic Development, Tourism, Sport and Culture, there is room for improvement in other departments.

Recommendation

- R17** Take further steps to instill from the top of the organisation a consistent culture of good governance across all departments.

Conclusion

- 8.1 Grant funding is an important means by which the States can deliver their strategic objectives. But for the use of grants to deliver demonstrable value for money there must be:
- clarity of what transactions are treated as grants;
 - good design and development of grants to ensure that grants are the most appropriate forms of funding and that benefits reach the intended recipients;
 - effective oversight that promotes accountability and demonstrates value secured;
 - robust operational management that enables grants to be efficiently and effectively run in accordance with organisational policies and objectives;
 - routine evaluation of grants based on good quality information to inform future decisions; and
 - a culture in which the effective management of grants is consistently promoted.
- 8.2 Those characteristics are not consistently in place across the States.
- 8.3 Firstly, there is an ambiguity about what constitutes a grant, leading to the treatment as grants of what are in substance contractual payments. The application of an inappropriate control framework can result in failure to achieve value for money.
- 8.4 Secondly, there is insufficient corporate oversight of the award of grants. There is no analysis of grant payments across different schemes to identify the total public support to individual recipients and evaluate whether such support is in line with the overall objectives of the States.
- 8.5 Thirdly, there are weaknesses in the management of grants:
- some key elements of good practice for the design and development of grants are not covered by Financial Direction 5.5;
 - in some cases, the demonstrable link of grants to corporate and departmental objectives is weak;
 - arrangements for oversight of grants are inconsistent;
 - arrangements for operational management of grants are not consistently robust;
 - performance measure of the outcome of grant expenditure is not consistently developed; and
 - there has been inadequate corporate learning from the work on grants undertaken by Internal Audit.
- 8.6 Fourthly, there is inadequate evidence of a consistent corporate culture that gives sufficient priority to effective management of grants in accordance with corporate standards.

- 8.7 I welcome the decision to develop a new Financial Direction covering grants. I also welcome the focus of Internal Audit on this important area. However, development of the Financial Direction and reporting by Internal Audit will not be sufficient to enable the States to demonstrate that value for money is consistently being secured from grant expenditure. That will require effective roll-out of new arrangements and implementation of recommendations. Crucially it will also require a consistent understanding of the elements of good practice in the management of grants from design to evaluation and a culture of learning so that good practice is shared and consistently applied across the States.

Appendix 1 – Summary of Recommendations

Scope of directions and guidance

- R1** Clarify the scope and review the definition of payments treated as ‘grants and subsidies’.
- R2** Ensure that payments that are in substance contracts are effectively managed as such.

Design and development

- R3** Reflect in the revised Financial Direction 5.5 the elements of best practice for scheme design included in this section:
- consideration of alternative mechanisms for funding;
 - identification, assessment and mitigation of risks;
 - learning from other grant schemes;
 - stress testing;
 - anti-fraud strategies;
 - establishing evaluation and review processes;
 - identifying the target population for grants;
 - balancing the uptake of grants against the cost of administration;
 - involvement of market sector expertise and reflecting it in scheme design;
 - consideration of other grants and support available to market participants; and
 - forecasting and monitoring of scheme uptake.
- R4** Reinforce the mechanisms for monitoring compliance with corporate requirements following the roll-out of the revised Financial Direction 5.5, including:
- the need for a transparent linkage of grant schemes to organisational objectives; and
 - the need to ensure that grants are used only for their intended purpose.
- R5** Undertake a corporate review of grants and other support to identify the total level of support to individual bodies and whether that is in line with organisational objectives.

Oversight

- R6** Reflect in the revised Financial Direction 5.5 the elements of best practice for scheme oversight included in this section:
- overarching principles driving governance arrangements;
 - mechanisms by which grant recipients account for their performance;
 - provisions on measurement and delivery of objectives;
 - specific provisions on risk management;
 - requirements in relation to collation and use of management information; and
 - requirements in relation to the collation, recording and use of information received from whistleblowers.
- R7** Review the range of existing governance arrangements for individual grants and grant schemes and justify differences by reference to business need.
- R8** Reinforce the mechanisms for monitoring compliance with corporate requirements following the roll-out of the revised Financial Direction 5.5 proportionate to the size of grant awarded, including:
- critically reviewing annual accounts provided by grant recipients;
 - obtaining evidence that grants have been used only for their intended purpose; and
 - holding formal monitoring meetings with grant recipients.
- R9** Share across the States good practice on the collection, evaluation and reporting of monitoring information on grants awarded.

Operational management

- R10** Reflect in the revised Financial Direction 5.5 the elements of best practice for scheme management included in this section:
- robust assessment of the capacity and capability of 'delivery partners';
 - ongoing monitoring of whether controls operated by 'delivery partners' are effective;
 - consideration of the use of a wider range of sanctions and rewards; and
 - consideration of the volume and nature of resources required to administer grants.
- R11** Reinforce the mechanisms for monitoring compliance with corporate requirements following the roll-out of the revised Financial Direction 5.5, including:
- consideration of conflicts of interest; and
 - undertaking due diligence.
- R12** As part of the design of grant schemes routinely consider the cost of grant administration.

Evaluation

- R13** Reflect in the revised Financial Direction 5.5 the elements of best practice for evaluation included in this section:
- inclusion of appropriate value for money measures for grants in funding agreements and subsequent use of those measures; and
 - systematic quality checks for all larger grants.
- R14** Review the cost and effectiveness of existing quality checks across larger grants and grant schemes and reconsider quality checks in light of that review.
- R15** Develop an overall States-wide framework for grants.
- R16** At Corporate Management Board level, develop a corporate action plan to address the recurring weaknesses in the management of grants and monitor its implementation.

Overall governance arrangements

- R17** Take further steps to instill from the top of the organisation a consistent culture of good governance across all departments.



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